

**DOUGLAS COUNTY RURAL
WATER DISTRICT NO. 1**
Lawrence, Kansas

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2012

And

INDEPENDENT AUDITORS' REPORT

...KL...

Karlin & Long, LLC
Certified Public Accountants

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DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Lawrence, Kansas

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Karlin & Long, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Douglas County Rural Water District No. 1
Lawrence, Kansas 66049

We have audited the accompanying fund Summary of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash of the Douglas County Rural Water District No. 1, Lawrence Kansas ("District") as of and for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the fund Summary statement of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash (basic financial statement) as a whole. Schedules 1 through 6 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or

to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Karlin & Long, LLC
Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
February 11, 2013

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1
Summary of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add	
						Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Proprietary Type Funds							
Water Utility	\$ 713,185	\$	\$ 435,095	\$ 357,362	\$ 790,918	\$ -	\$ 790,918
Total Reporting Entity	\$ 713,185	\$ 0	\$ 435,095	\$ 357,362	\$ 790,918	\$ 0	\$ 790,918

Composition of Cash

Checking Accounts	\$ 143,629
Petty Cash	100
Certificates of Deposit	647,189
Total Reporting Entity	\$ 790,918

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Douglas County Rural Water District No. 1 (the District) is a water utility that provides service to 384 customers as of December 31, 2012. The District was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

The following types of funds comprise the financial activities of the District for the year of 2012:

Regulatory Basis Fund Types

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, sewer fund, etc.).

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenues and principal and interest payable, and reservations of fund balance are not presented.

Under the regulatory basis of accounting, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

Use of Estimates

The preparation of modified cash basis financial statements (see the supplemental information on schedules 1 through 6) requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows and summary of cash balances, (see the supplemental information on schedules 1 through 6) cash and cash equivalents are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Memberships

The District adds the cost of purchasing a benefit unit directly to district equity rather than recognizing those sums as revenues.

Property and Equipment

Property and equipment are recorded at cost (see the supplemental information on schedules 1 through 6). Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using straight line and declining balance methods over the estimated useful life of the asset. Depreciation expense totaled \$ 20,956 and 34,299 for the year ended December 31, 2012 and December 31, 2011, respectively.

Income Taxes

In prior years, it has been held that the District is exempt from income taxes under Section 115 of the Internal Revenue Code both because it is a public utility under Section 247 and because it is a political subdivision of the State of Kansas (K.S.A. 82a-601,et.seq.).

The District's payroll tax returns for the years ending 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

In a 1992 published Internal Revenue Service opinion, it was determined that Kansas rural water districts do not qualify as political subdivisions for the purposes of the exemption from payment of FUTA. No claim has been asserted against the District for this tax, nor is the amount of any such claim determinable at this time. Kansas law has been changed, effective March 20, 1992, the result of which causes rural water districts to again qualify as a political subdivision for the purpose of the exemption for payment of FUTA. We are unable to determine at this time whether or not a claim will ultimately be asserted against the District, the likelihood that it would ultimately be held liable for that claim, or the ultimate amount of that claim, if assessed. Consequently, no additional liabilities relating to a possible claim have been recognized.

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

At December 31, 2012, the District's carrying amount of deposits, including certificates of deposit, was \$ 790,918 and the bank balance was \$ 790,789 of which \$ 176,354 was covered by FDIC insurance. The balance of \$ 614,435 held in an investment account of a commercial institution is not secured by FDIC insurance.

Custodial Credit Risk – Investments

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 4 – Compliance with Kansas Statutes

We noted no violations of Kansas statutes during the period under examination other than the custodial credit risk noted above.

NOTE 5 – Water Contract

In 1977, the District entered into a 40-year contract for treatment of water from the City of Lawrence, Kansas. The District purchases water from the City of Lawrence at the rate of \$ 3.83 per thousand gallons.

NOTE 6 – Compensated Absences

The District pays vacation time of up to 12 days a year for employees who have worked less than 5 years. For employees who have worked more than 5 years but less than 10 years, the District will pay for 15 days of vacation. For employees who have worked more than 10 years, the District will pay for 18 days of vacation. There is no accumulation of vacation days from one year to the next. Those days not taken by the end of the year are paid prior to January 1 of the following year. The Board of Directors may, at its discretion, allow an employee to carry up to 5 days of vacation over to the next calendar year. The district allows employees sick leave at the rate of one day per month following the commencement of their employment. Sick leave may be accumulated to a maximum of 90 days.

Upon separation from the District the employee is not paid for unused accumulated sick leave.

NOTE 7 – Concentration of Suppliers

DOUGLAS COUNTY RURAL WATER DISTRICT NO.1

Lawrence, Kansas

NOTES TO FINANCIAL STATEMENTS

The District acquires 100% of its water supply from the City of Lawrence. There are no other suppliers of water available for the District.

NOTE 8 – Concentration of Credit Risk

The District currently has all of its certificates of deposit and demand deposits with three financial institutions in Lawrence, Kansas banks. This is a concentration of credit risk related to deposits.

NOTE 9 – Employment Benefits

The District provides medical insurance if the employee so desires. Health insurance for dependents is not paid by the District.

The District contributes to a retirement account established for each employee. The amount contributed and the basis on which contributions are made are determined annually by the Board and shall be in compliance with all federal and state laws.

NOTE 10 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 11 – Subsequent Events

Subsequent events for management's review have been evaluated through February 11, 2013. The date in the prior sentence is the date the financial statements were available to be issued.

Douglas Rural Water District No. 1

Regulatory-Required

Supplementary Information

For the year ended December 31, 2012

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
 Water Utility Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the year ended December 31, 2012
 (With Comparative Totals for the Prior Year Ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
CASH RECEIPTS		
Charges for services	\$ 419,950	364,353
Reinvested income in fund value	5,309	4,399
Cash on sale of assets	-	3,000
Interest income	484	114
Miscellaneous income	<u>9,352</u>	<u>24,713</u>
Total Cash Receipts	<u>435,095</u>	<u>396,579</u>
EXPENDITURES		
Production	337,800	342,090
Capital outlay	<u>19,562</u>	<u>73,455</u>
Total Cash Expenditures	<u>357,362</u>	<u>415,545</u>
Receipts Over (Under) Expenditures	77,733	(18,966)
Unencumbered Cash, Beginning	<u>713,185</u>	<u>732,151</u>
Unencumbered Cash, Ending	\$ <u><u>790,918</u></u>	<u><u>713,185</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Balance Sheets
As of December 31, 2012 and 2011

	ASSETS	
	2012	2011
Current Assets		
Cash and cash equivalents	\$ 143,729	\$ 71,306
Certificates of deposit	647,189	641,879
Inventory	21,494	20,729
Water rights	698	698
Total current assets	813,110	734,612
Property, plant, and equipment, net	116,579	117,972
Total Assets	\$ <u>929,689</u>	\$ <u>852,584</u>

LIABILITIES AND DISTRICT EQUITY

Current Liabilities		
Due to Patrons	\$ 828	\$ 688
Payroll and sales taxes payable	<u>1,132</u>	<u>986</u>
Total current liabilities	<u>1,960</u>	<u>1,674</u>
District Equity	<u>927,729</u>	<u>850,910</u>
Total liabilities and member's equity	\$ <u>929,689</u>	\$ <u>852,584</u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Operations
For the year ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Water sales	419,952	\$ 364,353
Expenses		
Water purchased	214,390	189,531
Salaries and wages	31,989	27,465
Subcontractors and fees	45,858	66,848
Repairs and maintenance	6,248	3,133
Utilities and telephone	8,021	8,207
Insurance and bonds	7,431	10,774
Office expenses	7,024	9,167
Professional and other services	3,412	974
Payroll taxes	2,447	2,101
Dues and fees	426	348
Depreciation	20,956	34,299
Mileage and auto expense	312	989
Board expenses	477	1,551
Outside services	-	6,791
Retirement contribution	7,200	6,900
License and fees	55	30
Bank fees	1,280	1,073
Returned checks	752	1,443
	<u>358,278</u>	<u>371,624</u>
Net income from operations	<u>61,674</u>	<u>(7,271)</u>
Other Income (Expense)		
Miscellaneous income	9,352	24,713
Interest income	484	114
Increase in fund value	5,309	4,399
Gain on the sale of assets	-	3,000
	<u>15,145</u>	<u>32,226</u>
Net Income	<u><u>76,819</u></u>	<u><u>\$ 24,955</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Changes in District Equity
For the year ended December 31, 2012 and 2011

	<u>2012</u>		<u>2011</u>
District Equity - Beginning of year	850,910	\$	825,955
Memberships			
Net Income	<u>76,819</u>		<u>24,955</u>
District Equity - End of year	<u><u>927,729</u></u>	\$	<u><u>850,910</u></u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Statements of Cash Flows
For the year ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Net Income	\$ 76,819	\$ 24,955
Adjustments to Reconcile Net Income to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and amortization	20,956	34,299
(Increase) decrease in Inventory	(766)	(4,150)
(Increase) decrease in Water rights	-	(100)
Increase (decrease) in Due to Patrons	140	321
Increase (decrease) in taxes payable	146	(837)
Net Cash Provided By Operating Activities	<u>97,295</u>	<u>54,488</u>
Cash Flows from Investing Activities		
Proceeds from sale of benefit units	-	-
Proceeds from certificates of deposit	(5,310)	64,501
Purchase of assets	(19,562)	(73,454)
Net Cash Provided By Investing Activities	<u>(24,872)</u>	<u>(8,953)</u>
Net Increase (Decrease) In Cash	72,423	45,535
Cash - Beginning of Period	<u>71,306</u>	<u>25,771</u>
Cash - End of Period	<u>\$ 143,729</u>	<u>\$ 71,306</u>

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Summary of Insurance Coverage
As of December 31, 2012

Property Covered	Coverage	Expires
Commercial property:	90% Coinsurance	12/7/2013
Building	111,458	
Property in the open	400,000	
Underground pumps	200,000	
Personal property in office	50,000	
Commercial General Liability:		12/7/2013
Aggregate Limit -		
products/completed operations	1,000,000	
Personal and advertising injury	500,000	
Damage to premises rented	100,000	
Medical expense (per person)	5,000	
Inland marine		12/7/2013
Miscellaneous inventory	93,615	
Commercial Auto:		12/7/2013
Liability insurance (per loss)	500,000	
Workmen's compensation:		12/7/2013
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		12/7/2013
Per loss	100,000	
Directors' and Officers' Liability:	1,000,000	12/7/2013

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

**Board Members and Officers
As of December 31, 2012**

Chairman:	Tom Sloan 772 Highway 40 Lawrence, KS 66049
Vice-Chairman:	Bob Riley 695 N 1610 Road Lawrence, KS 66049
Secretary/Treasurer:	Mel Wren 835 N 1710 Road Lawrence, KS 66049
Board Member:	Jerry Younger 1469 E 660 Road Lawrence, Kansas 66049
Board Member:	John Bialek 692 N 1483 Road Lawrence, KS 66049
Board Member:	Curtis Morgan 754 N 1750 Road Lawrence, KS 66049

The notes to the financial statements are an integral part of this statement.

Consolidated Rural Water District No. 4, Shawnee County, Kansas
3333 NW Button Road
Topeka, KS 66675

Audit of financial statements for Consolidated Rural Water District No.4
Shawnee County, Kansas for the years
ended December 31, 2012 and 2011.

\$4,950

February 8, 2013
Karlin & Long, LLC
10115 Cherry Lane
Lenexa, Kansas 66220

This representation letter is provided in connection with your audits of the financial statements of Consolidated Rural Water District No. 4, Shawnee County, Kansas, which comprise the respective financial position of the business-type activities as of December 31, 2012 and 2011, and the respective changes in net assets and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 8, 2013, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 30, 2012..
- 2) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the Water District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

- 18) We have made available to you all financial records and related data.
- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) The Water District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 23) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 24) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 25) The Water District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 26) The Water District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 27) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 28) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 29) The financial statements properly classify all funds and activities.
- 30) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 31) Components of net assets (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 32) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 33) Provisions for uncollectible receivables have been properly identified and recorded.
- 34) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

- 35) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 36) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 37) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 38) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 39) We have appropriately disclosed the Water District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 40) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 41) With respect to the Schedule of Insurance in Force:

We acknowledge our responsibility for presenting the Schedule of Insurance in Force in accordance with accounting principles generally accepted in the United States of America, and we believe the Schedule of Insurance in Force, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Schedules of Insurance in Force have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

Signature: _____	Signature: _____
Title: _____	Title: _____